



FISCAL PROFILES, 2004



CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Summary

This report contains and analyzes statistical information about the financing of California post-secondary education from the 1965-66 fiscal year through 2004-05. In addition, there is information on California public elementary and secondary education financing as well as State government in general. The Commission compiles, disseminates and analyzes this information to provide policy makers with comprehensive and comparable financial data that can be used in comparative analysis of higher education finance issues. This document also provides an efficient and accurate response to the many questions that the Commission receives each year.

This report, the thirteenth in the series, retains the formatting and structure of prior years. Because of publication timelines, some of the data shown for the current fiscal year are estimates at this point. They will be replaced with actual data when the budget is finalized.

Major highlights in the report include the following:

- ♦ Total State General Fund spending in California is \$79 billion in 2004-05, an increase of \$3 billion over the January Budget's proposed \$76.1 billion. Including more than \$26 billion in selected State Special Funds, the total proposed State budget for 2004-05 is estimated to be more than \$105 billion;
- ♦ State General Funds plus Local Property Tax revenues for the state's three public higher education systems increases by \$454 million over last year (4.6%); and
- ♦ 2004-05 higher education funding is anticipated to increase by \$454 million in combined State General Fund and local funds over 2003-04, mostly concentrated in the community colleges, which are anticipated to receive \$418 million more in 2004-05 than in 2003-04. Thus, the net effect for funding for the remainder of higher education in 2004-05 is minimal. Another round of increases in State University and University of California student fees will partially offset this shortfall.

The report documents that the 2004-05 budget for the State of California represents the third "recession-era" budget in a row. General Fund spending proposed for 2004-05 is more than \$2 billion lower than in 2000-01. The spending level is lower than what would occur with normal caseload growth in service populations.

The report concludes that California's higher education systems face many challenges over the next several years. Chief among these are increasing enrollment pressures and the need to improve both the persistence and graduation rates of students.

This report was transmitted to the Commission at its September 7 – 8, 2004, meeting and was finalized in December 2004. Additional copies may be obtained on the Internet from the Commission's website. Please visit the Commission's homepage -- www.cpec.ca.gov -- for further information. Please check the website, as updates to the report will periodically be posted electronically. Questions about the substance of the report may be directed to Kevin Woolfork of the Commission at (916) 322-8007 (voice) or by electronic mail at kwoolfork@cpec.ca.gov.

FISCAL PROFILES, 2004

*The Thirteenth Annual in a Series
of Factsheets About the Financing
of California Higher Education*



CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
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Introduction

FISCAL PROFILES 2004 is the thirteenth in a series of annual reports by the California Postsecondary Education Commission of statistical information on the financing of the State's public higher education institutions. It also includes selected financial and enrollment information on public elementary and secondary education, and on California's independent higher education institutions.

Executive summary

After publication of this report, the Legislature and Governor passed a budget for the current 2004-05 fiscal year. This update relies on information published in the Governor's Proposed 2004-05 Budget, the May Revision to the 2004-05 Budget, and the final 2004 budget as adopted and signed into law. This information is supplemented by other updates available from legislative and administration sources. The information shown for earlier years comes from the affected higher education segments and other data providers.

The reader is cautioned that the information and analyses presented for the most recent years in this initial iteration of Fiscal Profiles, 2004 is based upon budgeted totals for 2004-05. During the course of the year actual allocations will vary from these totals.

The Governor's revised 2004-05 budget includes \$79 billion in State General Fund spending, an increase of \$3 billion over the January Budget's proposed \$76.1 billion. Including more than \$26 billion in selected State Special Funds, the total proposed State budget for 2004-05 will be more than \$105 billion.

The proposed 2004-05 budget for the State of California represents the third "recession-era" budget in a row. General Fund spending proposed for 2004-05 is more than \$2 billion lower than in 2000-01. The budget seeks to force spending below what would occur with normal caseload growth in service populations. Total State General Fund spending in California is \$79 billion in 2004-05, a slight increase above the prior two years. Total State government-authorized spending (State Spending Plan) is estimated to increase by \$1.2 million in the current year, or only half of one percent.

For California higher education, the proposed 2004-05 State budget, as of the May Revise, includes nearly \$11 billion in combined State General Funds and local property tax revenues. These combined State and Local funds for the state's three public higher education systems increases by \$454 million over the past year (4.6%). Of these funds, the California

Community Colleges are anticipated to receive \$418 million more in 2004-05 than in 2003-04.

For higher education, the proposed 2004-05 budget is tied to future budgets through a 7-year Compact entered into by the Governor with the California State University and the University of California. The major components of the Compact are summarized below:

- Annual increases in State General Fund support of 3% in 2005-06 and 2006-07, 4% in 2007-08, and 5% in 2008-09 through 2010-11;
- 2.5 percent annual enrollment growth funding, (approximately 5,000 full-time-equivalent students at UC and 8,000 full-time-equivalent students (FTES) at CSU);
- Undergraduate student fee increases of 14% in 2004-05, and no more than 8% in 2005-06 and 2006-07 (increased only if fiscal conditions dictate), with 20% to 33% of the fee revenues to be used for institutional financial aid;
- Partial restoration of academic preparation funding (\$12 million in UC and \$46 million in CSU), using non-state resources; and
- Annual statistical reporting of outcomes information in areas including: enrollments, persistence and graduation rates, time-to-degree, student-to-faculty ratio, new transfer students, and systemwide office administrative funding.

While the Compact proposed increased funding for the out-years, the current year General Fund budgets of the State University and University of California are both projected to be lower than in 2003-04. Another round of increases in systemwide student fees in the State University and University of California will partially offset this funding shortfall.

For K-12 Education, the Governor's May Revision proposed to increase the Proposition 98 funding guarantee by \$542 million for the 2003-04 and 2004-05 two-year period over what was proposed in January. This increase is lower than would otherwise occur under the complicated Proposition 98 calculation formulas. The Governor and the K-12 education community had earlier agreed to reduce the Proposition 98 guarantee for 2004-05 by \$2 billion.

While the 2004-05 State budget has not yet ended, there are estimates that even if it is balanced, the State will face another budget deficit in the range of \$5 - \$6 billion next year. The Governor and Legislature are debating some significant spending reductions in some areas of government. In addition, the Governor's soon-to-be-released "California Performance Review" is expected to call for some major overhauls of state government functions in order to generate efficiencies in public sector operations.

Even with the future-year funding pact entered into by the State University and University of California, and the community colleges being covered under Proposition 98, California's higher education systems face many challenges over the next several years. Chief among these are increasing enrollment pressures and the need to improve both the persistence and graduation rates of students.

The State's latest economic recession has underscored the dilemma facing policymakers of attempting to plan for steadily increasing public expenditures while relying upon unstable public revenue generation. Many State-funded programs, such as K-12 Education, corrections, and health and human services, have annual expectations for increased caseloads nearly every year. This is sometimes in conflict with limited State resources as tax revenues grow and shrink depending upon factors that have nothing to do with program caseload.

The fiscal situation for cities, counties, and special districts is just as challenged and they have less flexibility than the State. These local governmental entities are generally among the first to be impacted by economic downturns on both the revenue (decreased tax receipts) and expenditures (increased demand for social services) sides. And, often during recessions, the State will claim some revenues that usually belong to local governments.

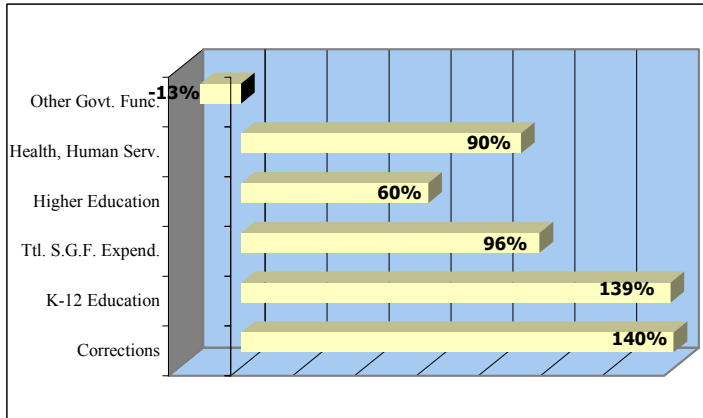
Through separately negotiated agreements and ongoing legislative deliberations, the Governor is attempting to address present and future funding issues with a host of entities -- K-12 Education, the State University and University of California, local governments, Native American gaming representatives, and others. These agreements are intended to inject some level of stability into future State financial decisions. However, given the variability this decade of tax and fee revenues, the true impact of these and other suggested policy and operations changes in the public sector will be difficult to predict.

Background

The chart on the following page shows the cumulative percent change, by major expenditure category, of State General Fund expenditures over the past 14 years (data from 1990-91 through 2004-05). The five smaller budget categories - "Legislative, Executive, Judicial," "State and Consumer Services," "Business, Transportation, Housing," "Resources," and "General Government Services" - are combined and shown under the heading "Other Government Functions." This change moderates some of the substantial fluctuations in funding levels for these individual categories over time.

As the chart shows, General Fund spending for Higher Education has increased 60%, while spending for K-12 education has grown by 139% over the past 14 years.

Percent Change in State General Fund Expenditures This Past, Dozen Years from Fiscal Year 1990-91 through 2004-05 (est.)



For 2004-05, the category “K-12 Education” (139%) is just behind “Corrections” (140%) as the fastest growing area of General Fund support since 1990-91. General Fund spending for “Health and Human Services” (90%) is the fourth highest category, behind Total General Fund spending (96%) over this time. General Fund spending for “Other Government Functions” has decreased (13%) since 1990-91. However, this category includes large proposed initiatives that often change significantly between what is anticipated in the budget and what actually occurs when spending for that year is determined.

General Fund spending for the category “Higher Education” has increased only 60% between 1990-91 and 2004-05. This rate of change is depressed, in part, due to recent-year reductions in State General Funds for higher education. This trend also points to the fact that higher education funding has become less General Fund dependent over time.

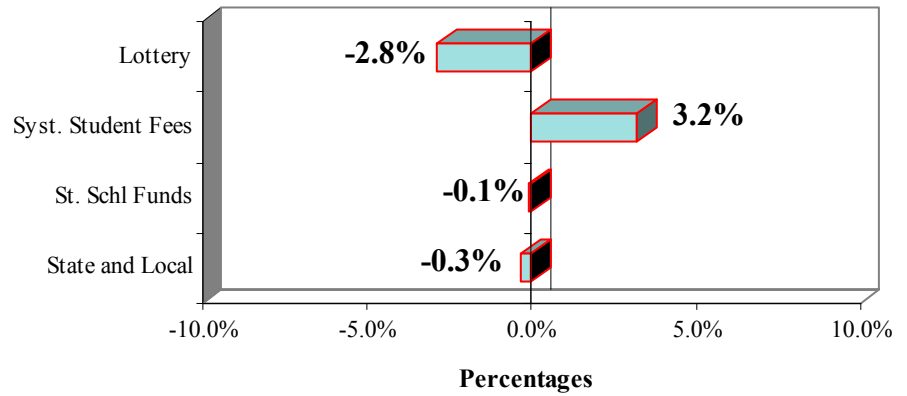
The chart on the next page shows percentage points changes in the proportion, or share, of total public funds represented by each of four “State-determined funds” – defined as funds over which either the State or the education systems themselves have policy control for the Community Colleges, the State University, and the University of California.

For the California Community Colleges, the relative proportions of its State-determined funds sources have changed little since 1986-87, and in ways consistent with the other two public systems. The community colleges’ largest funding source, State General plus Local Property Tax revenues, has declined three-tenths of one percent over this time. Lottery and State School Funds have also declined as shares of total funding. The largest change over the eighteen years is 3.2 percentage point increase in systemwide student fee revenues as a proportion of total State-determined funds. This is the largest share of total community college funding ever represented by student fee revenues. For 2004-05, combined State General and Local funds continues to account for more than 91% of the community college’s total State-determined funds (see Display 69).

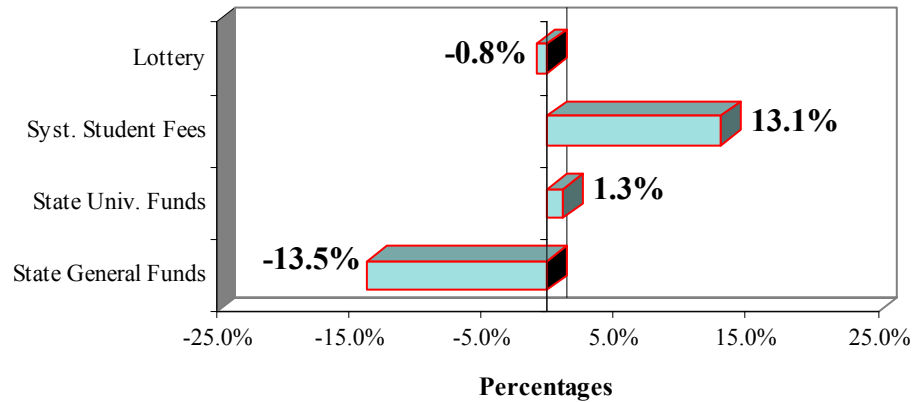
At the California State University, State General Funds as a proportion of the system’s total State-determined funds has declined by 13.5 percentage points since 1986-87. As a proportion of the overall total, State General Funds now represent less than 70% of the total State-determined funds (Display 69).

Changes in the Proportions of Total "State Determined Funds," by Fund Source, for the Three Public Segments of California Postsecondary Education, for Fiscal Years 1986-87 and 2004-05

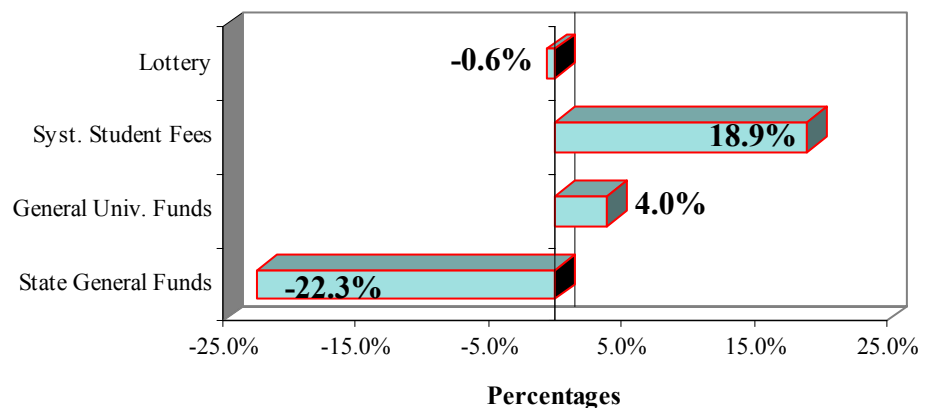
***California
Community
Colleges***



***California
State
University***



***University
of California***



This represents an historic low in the proportion of overall State-determined funds represented by the General Fund over the 40 years of this measurement. “Net” State University Revenues (these are State University Revenues minus Systemwide Student Fee revenues, which are displayed separately here) are 1.3 percentage points higher in the current year than they were in 1986-87. Currently these funds comprise less than 6% of total State-determined funds. The State University’s Lottery revenues now represent 1.2% of the total, similar to its proportion in past years. Over the 20 years of its existence, Lottery revenues have averaged just 1.3% of total State University State-determined funds. Revenues from resident Systemwide Student Fees represent 13.1% more of the State University’s State-determined funds in 2004-05 than in 1986-87. As a share, these student fee revenues are now nearly a quarter of this total, up from the 11% of 1986-87. In the past and current fiscal year, student fees have accounted for the highest proportion of total State University State-determined funds in 40 years (see Display 69).

At the University of California, State General Funds as a proportion of total State-determined funds have dropped by more than 22 percentage points since 1986-87. General University funds (nonresident tuition and miscellaneous student and institutional revenues), as a proportion of the total, have increased by 4%; these funds now represent 12% of the total. The proportion of the total represented by Lottery funds at the University has declined by six-tenths of one percent since 1986-87 and remains steady at 0.5% of total State-determined funds. Even more so than in the other systems, Systemwide Student Fee revenues’ share of State-determined funds has grown significantly at the University, up nearly 19 percentage points since 1986-87.

Topping last year’s growth, the increase in the share of the total shown here represented by student fee revenues is the largest measured for any State-determined fund source for any of the three systems in the 17 years of this measurement. Student fee revenues in the University now account for just under 28%, its highest total ever, as also was the case last year. At 59.8%, State General Fund’s share of total University State-determined funds is at its lowest point in the 40 years of this measurement and is now less than four-fifths of what it was just four years ago (see Display 69).

**Organization
of the report**

Fiscal Profiles 2004 has 99 tabular displays – of which 90 have been updated for this report. These displays are organized under 16 major categories of information. Appendix A contains five pages of multi-year summaries of much of the data from these displays. The information presented in the displays for the immediate past fiscal year (2003-04) and the current fiscal year (2004-05) are estimates and proposals representing the most up-to-date information presently available on the varied aspects of California State government finance. This information has been compiled from, and verified by, a variety of sources, however, with the 2004-05 budget as adopted.

*State General Fund
Appropriations*

Displays 1 through 3 describe overall State General Fund appropriations, shares of total spending, and annual percentage changes in nine programmatic areas the State uses to categorize its yearly-spending plan for this fund source through 2004-05. Over the past few years, some agencies formerly contained within categories – such as the California EPA and the Trade and Commerce Agency – have themselves been reclassified as stand-alone program categories. For consistency and for purposes of this analysis, they continue to be shown within their former program categories in this report.

Among the trends portrayed for 2004-05 in these displays is that the share of total General Fund expenditures represented by higher education remains below 12% (Display 2). At 11.9%, the current year's higher education share of total General Funds continues to be among the lowest measured here over the past 38 years. The three lowest such proportions of the total funding represented by higher education have all occurred within the last five years. In recent years, the diversification of higher education's funding resource base beyond the State General Fund, mostly through increases in user fees, has accelerated.

K-12 Education's share of State General Fund expenditures in preliminarily estimated to 43.7% in 2004-05. While this proportion will likely decline somewhat once a State final budget is adopted, it should still end up being among the very highest proportions overall General Fund spending ever measured here for K-12 Education.

Two years ago, the smaller expenditure categories – “Business, Housing, Transportation,” “Resources,” and “State and Consumer Services” – all showed significant one-year declines in General Funds. For 2004-05, two of the four show slight increases and the other two slight declines. The relatively small expenditure category “General Government Services” is actually projected to net a savings to the State of \$1.7 billion in 2004-05. This is nearly an \$8 billion turn-around from last year's spending in the category and highlights the volatility of budget-year spending estimates in this category. This development also highlights one of the challenges of this analysis: the impact of costly short-term activities (such as accounting for tax reductions or anticipated borrowing) and the use of the “General Government” category as a catch-all for anticipated budgetary savings or expenditures generated within other program areas in any one category.

Spending in the “Health and Human Services” and “Corrections” categories both are projected to account for greater shares of total General Fund spending in 2004-05 than in any recent year. “Health and Human Service's” 32.4% share is its seventh largest in the 38 years of this measurement. At 8.1%, “Corrections” share of total General Fund spending is its fourth largest ever and is anticipated to grow by the largest percentage (17.9%) of any of the categories. “Corrections” continues to be the ex-

penditure category with the highest growth in State General Funds over the past 38 years to be (Appendix A).

Displays 4 and 5 show State personnel years (filled positions) and State employee salary cost estimates for the five major budget expenditure categories, along with individual proportions of personnel years (PYs) and accompanying salary costs since the 1967-68 fiscal year. Higher education accounts for 35.8% of total PYs and 34% of accompanying salary costs. The largest number of State government filled positions and total salaries reside in the smaller budget categories “Legislative-Judicial-Executive,” “Business, Housing, Transportation,” “Resources,” and “State and Consumer Services” combined here as “Other Government Functions.”

Budgeted positions in “Health and Human Services” dropped by one third four years ago due to the reclassification of some functions outside that category. For 2004-05, its share of positions and salaries is within one percentage point of the past year. For the category “Corrections,” the 2004-05 percentage of total positions (16.7%) is its second highest and of total salary costs (18.8%) is the highest in the 38 years covered. The positions and salaries shown for K-12 Education do not include the local districts and, thus, this category has maintained a very small share (less than 1%) of total State personnel over time.

Over the last 37 years (Appendix A), the category “Corrections” has seen the largest increase in the proportion of any category in both its total filled positions (436%) and its salary costs (3,626%) since 1967-68. The State program category next-closest in growth is “Higher Education,” but its positions (111%) and salaries (1,138%) have increased at a rate less than one-third that of “Corrections” over time.

Display 6 presents State General Fund expenditure for State operations and local assistance in the five major budget expenditure categories in actual and “constant” 2004-05 dollars, using the State and Local Government Purchases Index to control for inflation. The first page of Appendix A shows changes over time in these data. It shows that when the effects of inflation are removed by calculating constant dollar amounts, General Fund spending for “Higher Education” has increased just 188% in 37 years. This is only three-fifths the rate of inflation-adjusted growth in spending for the State as a whole (305%) and is lower than any of the other program categories, except for “Other Government Functions.”

Since 1967-68, “K-12 education” inflation-adjusted General Fund spending has grown 327% and “Health and Human Services” 373%. The expenditure category with, by far, the largest inflation-adjusted spending increase over time is “Corrections,” with a General Fund spending increase of 715% since 1967-68. Spending increases of this relative magnitude usually are the result of some short-term activity or other data aberration, however, “Corrections” spending has consistently increased since

1967-68. In the 37 years of this measurement, year-to-year “Corrections” spending has declined in only four and in only one year (2003-04) was its General Fund decline the largest registered for the expenditure categories. If past trends are any evidence, even the scale of this estimated decline in “Corrections” spending may not hold up once final data are available for the 2003-04 fiscal year.

*Total State
spending plan*

Display 7 shows the three different types of revenue sources that comprise State General Fund revenues and a portion of State Special Funds. There have been multi-billion dollar swings in “estimated vs. actual” tax and fee receipts and inter-fund transactions over the last four years and this volatility is reflected in this display. Prior and current budget year policy changes in “Minor” taxes (regulatory fees and proceeds from governmental transactions) have dramatically lowered their totals from earlier levels. In 2002-03, “Minor” taxes generated almost \$13 billion, however for the current, 2004-05 year, estimated revenues from these sources are less than \$2.3 billion. Among the more public of these changes is the lowering of the State’s vehicle license fee rate; this action accounts for \$3 - \$4 billion of the reduction in “Minor” tax receipts. Even at this lower level, revenues generated by “Minor” taxes have risen by 86% over the past ten years.

“Major” tax receipts (mostly income and sales-based taxes) are expected to increase by **\$billion** (6%) in 2004-05 over 2003-04 levels. Including loans and inter-fund transfers, the total of these revenues in the year is projected to be \$76.4 billion, down \$1.2 billion (1.6%) from last year. These total revenues have increased 79% over the last ten years. The lowering of “Minor” tax receipts has proportion of General Fund revenues represented by “Major” taxes to 96%, a proportion much more in line with its historic levels.

Displays 8, 9 and 10 detail the “Total State Spending Plan” since 1965-66. This plan accounts for nearly all State appropriations of State and non-State funds in five funding categories used by the State. While the State General Fund is the largest and most well known component of State government spending, its proportion of the State Spending Plan for the current year is projected to reach its seconds lowest level in the post Proposition 13 era. Only in the recession year of 1993-94 has the State General Fund accounted for less total spending than 2004-05’s 32.3%. Total State government-authorized spending in California for 2004-05 is projected to be \$236 billion, as increase of \$1.2 million (0.5%) over estimates for 2003-04.

Over a three-year period in the late 1990s and early 2000s, Total State spending increased by \$57 billion (39%). Over the most recent three years, Total State spending is estimated to have grown by only \$21 billion (10%). Three of the five funding categories are anticipated to experience one-year declines in revenues. State General Funds, State Special Funds and, Local funds all are projected to have lower revenues in 2004-05 than

in 2003-04. “Nongovernmental Cost” funds (monies derived from sources such as working capital revolving funds, bond funds, and retirement funds) and Federal Funds to the State are both projected to grow in 2004-05 over the prior year’s level.

Display 9 shows that after the General Fund’s 32.3%, the largest funding source for the State in 2004-05 is projected to be the Federal government at more than 23.3%, just ahead of Nongovernmental Cost funds at 23.1%. State “Special” Funds (restricted-purpose revenues from taxes, licenses and fees) are anticipated to generate 9% of total State spending in 2004-05. Local Property Tax revenues are projected to account for only 12.4% of the total State appropriations in 2004-05, its second lowest proportion of total State spending in 40 years. Local Property Tax revenues – which used to account for a greater proportion of total spending than did the State General Fund – reached a post Proposition 13 high of 15.7% in 1990-91. In an historical context, local property tax revenues averaged 34% of total State spending for the thirteen pre-Proposition 13 years shown here but have averaged only 14.3% in the 27 post-Prop 13 years.

The pre and post-Prop 13 proportions for the State General Fund evidence the same trend in reverse, as General Funds were used after Prop 13 to pay for government functions formerly funded through local revenues. This trend is not as pronounced for General Fund spending because of the large size of this fund source. In the thirteen pre-Proposition 13 years, General Funds averaged just over 31% of total State spending, however, for the twenty-seven post-Prop 13 years, General Funds have represented an average almost 39% of total State spending.

Changes in the proportions of Total State Spending Plan represented by these five funding categories is even more evident in Display 10, which shows these funds in both actual and 2004-05 “constant” dollars. The first page of Appendix A shows these calculations over a thirty-nine year period. The range of percent changes in “constant” dollars are: a high of 851% for Nongovernmental Cost Funds, 571% for Federal Funds, 510% for the State General Fund, 460% for the Total State Spending Plan, and 314% for Special Funds. However, Local Property Tax revenues without the effects of inflation have grown only 79% since 1965-66.

Display 11 describes Proposition 98 funding for public K-12 education and the California Community Colleges and Display 12 shows the “State Appropriations Limit” (SAL). The Proposition 98 data shown in this display is more informational than explanatory, given its complex nature and the annual negotiations and policy decisions surrounding it. For the 2004-05 fiscal year, it is estimated that \$47 billion in State and local funds will be allocated to public school and community college education under the Proposition 98 funding guarantee, an increase of \$777 million, (1.7%) above the prior year. The California Community College’s 2004-05 share of Proposition 98 revenues is estimated to maintain the past two years’ share of 10.6%. This 10.6% share is a much higher proportion of

total Prop 98 revenues than the colleges have received since 1991-92. The highest share of Prop 98 revenues the Community Colleges have ever received was 11.8% in 1990-91.

The information in Display 12 shows the State Appropriations Limit (SAL), which is calculated each year as a requirement of the 1979 voter-approved initiative Proposition 9 in 1979. The SAL is calculated based on changes in California Per-Capita Income, State population growth, and K-12 student enrollment, all of which had been accelerating in recent years. It is not uncommon for budget year projections of covered spending to be near the SAL, only to end up much lower once the final tally of spending – and final calculation of the limit – are completed. For 2004-05, the State is initially anticipated to be well below the appropriations limit. The extended recession and slow recovery continues to impact tax revenues, along with population and student enrollment growth. Thus, qualified State expenditures are projected to account for only four-fifths of the State appropriations limit in 2004-05 and leave the State an estimated \$13 billion under the spending limit.

*Funding per unit of
full-time-equivalent
student enrollment*

Displays 13 through 15 show total funding from various sources per full-time-equivalent student enrollment for the California Community Colleges, the California State University, and the University of California through 2004-05. The three displays are informational in nature for comparisons of changes in per-student funding from selected sources within individual systems and not between them. Each display represents funding levels related to the distinct educational missions of the individual systems and, for that reason, they are not intersegmentally comparable.

As shown in Display 13, combined State General Funds and systemwide student fee revenues per full-time equivalent student are projected to decline by 9.4% from 2003-04 to 2004-05 at the University of California. Since 2000-01, these combined funds per student have declined by 11.9% (\$2,671). The drop has been greater for the “General Funds per student” portion of funding; it is now anticipated to be 27.7% (\$5,159) lower than in 2004-05.

Combined State General Funds plus systemwide student fee revenues per full-time equivalent student at the California State University (Display 14) in 2004-05 have increased since 2003-04. Display 14 shows that the one year change is expected to be an increase of 5.1% (\$500) and the four-year change an increase of 2.2% (\$222). However, as was the case with the University of California, when only State General Funds per student are measured, they show a four-year decline of 10.8% (\$917).

For 2004-05, Display 15 shows that average funding per FTES from combined State, student and local fund sources is projected to increase by 8.8% (\$360) in the California Community Colleges over last year’s amount. However, the four-year change here is estimated as a decline of 0.9% (\$42) for these combined funds. For each of the systems, the trend

in recent years is that the student charges portion of “combined” funds per student increases more than the state funds portion.

Displays 16 through 18 contain information on average appropriations per full-time-equivalent student for instructional-related activities (I-R) in the public systems and expenditures per FTE for instructional-related activities in selected California independent institutions. The public-sector information is an annual update based upon the 1993 Commission report, Expenditures for University Instruction (CPEC 93-2) and the information for the independent sector was provided by the Association of Independent California Colleges and Universities (AICCU). The methodology for determining instruction-related revenues was developed by the Commission and the three public higher education systems, in consultation with the Department of Finance, the Legislative Analyst’s Office, and other State officials in 1993 (see “Notes and Sources”).

This comparison is presented for the State’s three public postsecondary systems through the 2003-04 fiscal year. It also includes expenditures per FTE for instructional-related activities in AICCU institutions through fiscal year 2002-03. The information is shown by major State and institutional fund sources, labeled here “State-determined funds,” and as totals for each system. In addition to actual dollar amounts, 2003-04 “constant” dollars are shown here, calculated using the Higher Education Price Index to mitigate the effects of inflation over time. Excluded here for the public postsecondary systems are all federal and private fund sources.

The information presented for the public sectors for the 2003-04 fiscal year are estimates, based on information available from the Governor’s May Revision of the proposed 2004-05 fiscal year. It is important to note that these data are projections at this point.

For the most recent year, these data show that total average I-R funding per student for the California Community Colleges (CCC) is projected to decrease by 0.5% (\$21) from 2002-03 levels. Similarly, total I-R funding for the California State University is estimated to have declined between 2002-03 and 2003-04. At the State University, the drop in average total I-R funding per student is projected to be just 0.6% (\$67). But at the University of California, the one-year change is actually an increase of 6% (\$908). This increase is due entirely to growth in student fee revenues, both systemwide and as accounted for under “General University Revenues.”

When measured in 2003-04 “constant” dollars, again both the community colleges and State University show year-to-year declines in per student funding for instruction-related activities. Total constant dollar I-R funding per student drops 7.1% in the community colleges and 3.4% for the State University, but increases 2.9% at the University of California. Information on the second page of Appendix A shows longer-term changes for this display. Since 1980-81, the display shows that in constant dol-

lars, total average I-R funding per student has declined at all three public systems – 13% for the community colleges, 15% for the State University, and 8% for the University of California.

Actual-dollar I-R expenditures per student for the AICCU institutions show an increase of 3.2% (\$757) between 2001-02 and 2002-03. In constant dollars, I-R expenditures per student in the independent sector dropped 9.3% (\$2,477) over this time.

*Appropriations
of funds for
California higher
education*

Displays 19 through 28 show total funding for the State's three public higher education systems along with the annual percent changes in total funding for each system. These data are presented individually for each system, by revenue source, and in terms of the proportion of total funding represented by each fund source. Display 19 shows that State General and Local funding combined for all three public higher education systems is a combined \$10 billion dollars in 2004-05, a 1.6% increase from last year. This level of funding is still lower than that for any year since 1999-2000.

For each of the three public systems, the share of total general purpose funds represented by systemwide student-fee revenues is anticipated to climb in the current year to near historic highs. Student fees now account for 5.9% of total general purpose funds at the community colleges, 16.6% at the State University, and 6.7% at the University of California. While the 2004-05 proportions of total funds represented by student revenues seem small, the State University's and University of California's percentages are the highest in the 38 years of data present. The community college's 5.9% of general purpose funds represented by student fee revenues is the third highest in its 21-year fee revenue data series.

For the University of California, the information in Display 21 shows that for the current year the University will have total operating revenues of \$18.7 billion, with more than three-quarters of these funds designated special or restricted use and not available for general operating purposes. At \$2.7 billion, State General Funds at the University of California are projected to be lower in 2004-05 than at any time since 1998-99. For 2004-05, University of California systemwide student fee revenues are expected to generate almost \$1.3 billion in operating funds, twice what it generated in 1998-99. Display 23 shows the University's fund sources for organized research, excluding the U.S. Department of Energy laboratories. While the federal government provides more than half of this funding in 2003-04, as it has historically, nearly one-sixth of it comes from State general and special State appropriations and contracts with State agencies. A quarter of this funding is generated by University gifts, contracts and grants, and endowment funds.

In Displays 24 and 25 for the California State University, 2004-05 State General Fund revenues are anticipated to decline by 1.8% (\$44 million) from last year's level. Systemwide student fee revenues are projected to

increase 12.4% (\$100 million) in the current year. Two years ago, State General Funds represented more than five times as much funding for the State University as did systemwide student fee revenues but today the ratio is 2.7:1. State General Funds now comprise 45% of the State University's operating funds, nearly two percentage points less than last year. State University "Other Funds" (mostly auxiliary and self-supporting operations) is the system's second largest operating fund source at 31%.

Overall operations funding for the California Community Colleges (Displays 26 and 27) is projected to increase by 12% in 2004-05, which is more than \$600 million. State General Funds are projected to grow by 36% this year, more than offsetting a 17% decrease in Local Property Tax revenues. Systemwide student fee revenues are expected to jump by 35% (\$87 million). At nearly \$1.8 billion, revenues from property taxes for the community colleges are lower now than at any time since 2000-01.

*Categories
of expenditures
for the systems*

Displays 29 through 33 show expenditures of general-purpose funds for ongoing operations in each of the three public systems by the various expenditure categories used by each system. General-purpose funds consist almost exclusively of the State General Fund, local revenues, and systemwide student-fee revenues, along with system-specific funds used for regular ongoing operations. In addition, these displays include calculations of the proportion of total expenditures represented by each category of expenditure for each system. When viewing these data, please note that some of these expenditure categories (such as public service and student service) are also funded using restricted-purpose and other revenue sources that are not accounted for in these displays.

Displays 29 and 30 show that in 2004-05, nearly \$1.8 billion in general-purpose funds will be allocated among expenditure categories in the University of California. Spending on "Instruction and Research" represents 54% of these funds, a 4% increase from last year and this category's highest share since 1993-94. 2004-05 general-purpose fund spending also increases to 12.3%, its highest level since 1997-98. Funding for the category "Public Service" is anticipated to drop to 2.5%, its lowest share since 1995-96, however, this activity is also funded by other sources in addition to general-purpose funds. As has been the case for 12 of the past 13 years, no general-purpose funding is allocated to "Student Services" in the University in 2004-05. Primary funding responsibility for this category was switched to student fee revenues at the beginning of the State's early 1990s economic recession.

Information in Display 32 shows that the California State University will spend 45% of its general-purpose funds on "Instruction," a decline from last year but in line with its proportions this decade. 2004-05 spending on "Student Services" is expected to increase to 15.5%, while general-purpose funding for "Academic Support" will drop to 12.2%. The State University expenditure category "Institutional Support" accounts for nearly 26% of general-purpose funding. This category includes spending

on the system’s many administrative functions and the operation and maintenance of the physical plant.

For 2004-05, the California Community College system is estimated to spend more than 89% of its general-purpose funds on enrollment-driven apportionments to the colleges (Display 33). This is in line with its average over the past three years, however this share is much lower than it was from the late 1960s through the mid-1980s. The category “Special Service and Operations” is projected to represent just under 11% of community colleges operations funding in the current year.

*Student tuition
and fee charges
and revenues*

Displays 34 through 39 contain a variety of information on resident student fees and non-resident student tuition at the State’s three public systems, and the revenues generated by these charges. For 2004-05, the budget assumes increases in systemwide resident undergraduate student fees of 14% at the California State University and the University of California and increasing community college per unit fees from the current \$18 to \$26.

With these projected increases, the three systems’ combined total revenues anticipated to be derived from systemwide student charges (not including mandatory campus-based fees) in 2004-05 is more than \$2.6 billion. In 1990-91, the last fiscal year before the State’s economic recession of the early 1990s, systemwide student charges generated a total of \$472 million; in 2000-01, the last fiscal year before the State’s economic recession of the early 2000s, these charges generated \$1.3 billion. Including revenues from tuition charged to non-residents, student charges may generate more than \$2.9 billion in 2004-05. As perspective on the magnitude of the student-generated revenues, University of California tuition and fees are now expected to generate more than half as much money in 2004-05 as is allocated through State General funds.

The table at the top of the third page of Appendix A shows changes in student fee revenues since 1965-66 (1984-85 for the community colleges) adjusted to remove the effects of inflation. The information shows that for 2004-05 non-inflation revenues (not fee levels) generated from total student tuition and fee revenues are projected to have risen 1,233% at the State University, 1,416% at the University of California, and 151% at the community colleges since 1965-66. These “non-inflation dollar” rates of growth far eclipse those of any other operating revenue source at the State University and the University of California and rival the percentage increases of any fund sources in the community colleges.

Displays 36 – 39 show undergraduate resident student fees and nonresident tuition from 1965-66 through the current year. The displays show both systemwide fees and “total” fees, which includes averages of mandatory campus-based fees at the State University and University of California. As noted earlier, increases in resident student fees are assumed for 2004-05. Fiscal year 2004-05 “constant-dollar” amounts of student fee

levels (not fee revenues) are shown in Displays 39 and summarized in Appendix A. These data show that when the effects of inflation are removed, resident undergraduate “total” student fee levels have risen 262% at the State University and 232% at the University over the past 39 years. Over the 20 years of systemwide student fees in the community colleges, these fee levels have grown by 253% in constant dollars. As a measure of how rapidly student charges rose in the period between 10 and 20 years ago, the constant-dollar rates of change in fee levels over the past ten years are in the single digits for the State University and University of California but are each in excess of 100% when compared with 20 years ago.

State financial aid

Displays 40 through 43 show funding for the State’s Cal Grant A, B, C, and T student financial aid programs for public, independent and proprietary postsecondary students administered through the California Student Aid Commission (CSAC). This report continues the new Display 41a, which provides separate information on new competitive and entitlement Cal Grant A and B awards along with totals that include renewal awards, for fiscal years 2001-02 through 2003-04. This display better reflects the changes to the Cal Grant system adopted in SB 1644 (Chapter 403, Statutes of 2000). Display 40 shows yearly summaries, by program, of new and total (including renewals) Cal Grant awards, and viewed as a whole. State General Funds account for more than \$710 million of the \$720 million anticipated to be spent on Cal Grants in the current year.

While the Cal Grant program comprises a relatively small portion of overall student financial aid in California, its impact is significant. In total, for 2004-05 there are more than 200,000 active Cal Grant awards going to California students. Display 41 shows that for the past year (2003-04) there were 62,763 new Cal Grant Entitlement Program awards and 21,505 new Cal Grant Competitive Program awards in the “A” and “B” awards programs. Combined information for the Cal Grant “C” and “T” programs shows that there were a total of 10,991 active awards in these programs. However, the bulk of these are “C” awards, as the Cal Grant “T” program has been phased out and converted to a loan assumption program for teachers.

As Display 42 shows, there were no changes made in the maximum level of Cal Grant awards for 2003-04, however a lowering of the Cal Grant “A” maximum award is being debated for the current 2004-05 State Budget. Display 43 shows numbers of outstanding student loans and total student loan dollars guaranteed by CSAC, in three groupings of educational sectors. Both the numbers of student loans and the total dollar amounts of those loans increased between 2001-02 and 2002-03 for all three sectors. The total numbers of loans to students attending the State’s public systems rose 7.3% for 2002-03 and 12% for the State’s independent institutions and proprietary schools. In total for 2002-03, CSAC guaranteed 912,545 student loans worth more than \$4 billion, increases of 22.1% in loans and 25.7% in loan dollar volume over 2001-02.

*Capital outlay
funds*

Displays 44 through 49 show capital outlay (construction and building renovation projects) funding for California's three public higher education systems, including both State and non-State fund sources. Due to the volatility and project specificity of the funding source "Other, Non-State," it is excluded here from the calculations of annual percent changes in total capital outlay expenditures. The 2004-05 budget contains more than \$1.9 billion in State capital outlay funding for the three public systems, \$1.3 million of this from the voter-approved Higher Education Capital Outlay Bond Act of 2004. Most of the other funding comes from remaining balances of 1996, 1998 and 2002 General Obligation Bond initiatives approved by the voters.

More than \$340 million in construction funds are provided through the Public Buildings Construction Fund, which acts as a bond issuance authority for the State. Excluding "Other, Non State" sources over the past dozen years, voter-approved general obligation bonds and lease-revenue bonds have provided virtually all of the funding for California's public higher education systems' building programs. In recent years, the State General Fund had also been tapped to pay for construction on the campuses, however no State General Fund money is included in the systems' capital outlay budgets for 2004-05.

*Independent
institutions in
California and the
nation*

Displays 50 through 60 show information for California's independent colleges and universities belonging to the Association of Independent California Colleges and Universities (AICCU). Displays 50 and 51 show information on student financial aid for all independent institutions through 2003-04. Display 50 shows that a total of 26,551 students attending independent institutions received Cal Grant awards in 2003-04. Display 51 shows that in 2003-04, the percentage of tuition at independent institutions covered by the maximum "Cal Grant A" award dropped to 42.5%, continuing its steady decline from the recent-year high of 53.8% in 1999-2000. The data also show that the proportion of Cal Grant A winners attending independent institutions grew to 30% in 2003-04, its second highest percentage since over the past 12 years.

Displays 52 through 57 deal with current fund revenues, enrollments and educational and general (E&G) expenditures in AICCU institutions through fiscal year 2002-03. In Display 52, total current fund revenues for independent institutions have substantially recovered from the past two years' decline. Total current fund revenues in 2002-03 were \$11.6 billion, up from 2001-02's \$8.8 billion. When coupled with a 4.1% (7,652 FTE) increase in enrollments, total current fund revenues per FTE student rose \$60,119 in 2002-03. Display 53 shows that each FTE student generated an average of 33.7% of these in revenues in 2002-03, or \$20,257 per student.

Display 54 shows information on headcount and FTE enrollment and weighted average tuition levels for independent institutions. As of 2002-03, there were more than 230,796 students enrolled at AICCU institu-

tions, a 4.4% increase over the prior year. The weighted average tuition at AICCU institutions for 2002-03 was \$21,465, a 6.7% increase over 2001-02. While the average tuition level per student was \$21,465, actual tuition revenue per FTE student was \$20,259. Actual student-generated revenues covered 84% of instruction-related expenditures per FTE student in 2002-03 (see display 18 for further information). Displays 55 through 57 show education and general (E&G) expenditures, average expenditures per FTE student, and instruction-related expenditures. Total E&G expenditures at the AICCU institutions grew to \$6.5 billion in fiscal year 2002-03, a one-year increase of \$445 million or 7.3%. For fiscal year 2002-03, average E&G expenditures per funded student were \$33,973, an increase of \$1,002 or 3% over the prior year.

Displays 58 through 60 show state funding and enrollment information for independent institutions for selected states. This information is gathered through the State-National Information Network (SNIN) of the National Association of Independent College & University State Executives (NAICUSE). Display 58 shows that, for the 20 states for which data were available for 2002-03, California overtook New York and now allocates more State funds to independent colleges and universities than do any of the states reporting even though several states enroll more students in independent colleges and universities than does California.

Display 60 has been reformatted for this year and shows undergraduate, graduate, and professional headcount enrollment in the nation's independent colleges and universities through 2002-03 (Fall 2002). California continues to have one of the nation's largest populations of students attending independent colleges and universities. There were 230,796 students attending California independent institutions in fall 2001. According to fall 2001 SNIN data, New York enrolls the nation's largest number of students in the independent sector (439,561), followed by Pennsylvania (254,861), and Massachusetts (214,770). Including California, these are the only four states in the nation that presently enroll more than 200,000 students in their respective independent sectors, though Illinois (197,555 students) is fast approaching this threshold as of 2002-03.

Appendix A shows changes in FTE enrollment nationally over the last eight years (Fall 1994 to Fall 2002) for California and other selected states with large independent sector enrollments. Minnesota (7%), Massachusetts (5%), and California (5%) have the largest year-to-year increases in funded student enrollment for the most recent year. Over the last three years, New Jersey (17%), Tennessee (13%) and Ohio (12%) have experienced the greatest enrollment growth in independent sector enrollment. California's independent postsecondary sector has seen funded student enrollment grow by 28% in the eight years since 1994. Other states' with large increases in independent sector enrollment over that time include: Ohio and North Carolina, each at 19%, and Massachusetts and Tennessee, each at (17%). Only Pennsylvania (-9%) of the states with more than 200,000 independent sector students has seen a de-

cline in enrollments over this time. The other 200,000-plus independent student enrollment state, New York, has seen 12% growth since 1994. Two states with very large independent sectors in recent years – Illinois and Florida, both with headcount enrollments over 100,000 student in Fall 2002 – are excluded from this measurement due to a lack of past year data.

*Enrollments in
California public
postsecondary
education*

Displays 61 through 64 show headcount and FTE (funded) enrollment for the California Community Colleges, the California State University, and the University of California. Funded enrollment information in Displays 61 and 62 projects an increase of 26,855 FTE students in the community colleges and 10,794 FTES for the State University over the prior year. A one-year 920 decline in FTES is anticipated for the University for 2004-05. The data estimate that for the three systems as a whole, nearly 20,000 additional headcount students will enroll in the 2004-05 academic year above the level enrolled in 2003-04.

Displays 63 and 64 show breakdowns of FTES enrollment, first in the University of California, then in the California State University and the California Community Colleges. The information in Display 63 shows only a fractional decrease of 18 FTES in the University's non-health sciences enrollment for 2004-05, but a 7% (902 FTES) reduction in health sciences enrollment. In Display 64, the State University FTE enrollment information is shown by level of students, while the Community Colleges' FTE enrollment information is presented by funding source. While Community College funded enrollment is expected to increase 2.4%, State University enrollment is anticipated to decline 3.2%.

All of this information shows that whether measured in terms of actual (headcount) or funded units (FTE), student enrollment in California public postsecondary education has risen significantly since the mid-1990s, though the 2000s recession has restrained this rate of growth. Over the past ten years, Community College FTE enrollment has increased 34%, State University FTES enrollment has grown 31%, and University of California FTES enrollment has grown 32%. The information shown on the top of the fourth page of Appendix A shows that the community college system is twice its size in the mid 1960s in terms of funded student enrollment. The State University and University of California are each one and three-quarters as large now as they were 40 years ago.

*Price (inflation)
indices, income
growth, and system
financial support*

Displays 65 through 67 show actual index values, annual percent changes, and inflation factors (used for "constant-dollar" conversions) for selected State and national price indices, including the Higher Education Price Index (HEPI), California Personal Income, and Implicit Price Deflators, through 2004-05. Due to a lack of available data, 2004-05 information for the Research and Development and Boeckh Construction Price indices in Display 67 are projections. For 2004-05, nearly all of these measurements of public inflation show that the rate of price increases will

pick up from the slower pace of recent years, ranging 2% – 3 % growth. As shown in Appendix A, most of the inflation indices have grown 25% – 30% over the past ten years, the exception being California personal income, which has increased 64% over the past decade. After a three years of relatively slow growth, as is shown in Display 66, the annual rate of growth in California personal income is expected to pick up in the current year, with a projected rate of 5.4% in 2004-05.

*Actual and
constant-dollar
state-determined
funds*

Display 68 compares the annual percent changes in some of the indices with annual changes in State General and Local Funds in the three public higher education systems. Also included are annual budgeted faculty salary adjustments and the Commission's yearly faculty salary parity adjustment calculations for the California State University and the University of California. For 2004-05, the Commission estimates that the State University would need a 12.7% increase and the University of California a 10.6% increase to gain parity with their respective groups of comparison institutions. Salary differences initially projected for the current year are usually adjusted downwards once information on actual salary changes at comparison institutions and at the State University and University of California are factored into the salary parity calculations in the following year. Still, the faculty salary parity gap for each system has increased in recent years and with the limited funding available for 2004-05, the projected current gap may be close to the final number.

Display 69 shows comparisons of fund sources labeled here "State-determined funds" for the State's three public higher education systems. These are fund sources (primarily State and local funds and student charges) over which the State and/or the education systems exercise policy-making or allocation authority. For the State University and University of California, State General Funds represent the majority of State-determined funds but not as large a proportion as in past years. At the beginning of this decade (2000-01), General funds represented 75.5% and 78.5% of total State-determined funds for the State University and University of California respectively. This year, those percentages are down to 68% for the State University and 59.8% for the University of California. The proportion of State-determined funds represented by system-wide student fee revenues is projected to be 25.1% for the State University and 27.7% for the University of California in 2004-05. Both of these are substantial increases in share from 2000-01 and are historic highs for the 40 years of this display.

State General plus Local revenues account for 91.3% of the California Community Colleges' State-determined funds. While still the overwhelming source of the system's funding, this share of the total is the fourth lowest in the 40 years of data shown here. The community colleges do not have an equivalent fund source to the State University and University of California's institutionally generated general funds. Systemwide student fees in the community colleges are expected to generate

6% of the system's State-determined funds in 2004-05, which is its third highest proportion in 40 years.

For all of the systems, revenues from the State lottery represent very small proportions – 0.5% - 2.6% – of the systems' total State-determined funds for their operations. The lottery has never represented more than 1.1% (1988-89) of this total for the University of California and its high for the State University was 2.8% back in 1989-90. For the community colleges, 1988-89's 5.4% represents the high for lottery revenues as a proportion of total State-determined funds. Since the beginning of this decade (1999-2000), the lottery has represented an average of only 2.8% of these revenues at the community colleges, just under 1% at the State University, and less than 0.6% at the University of California.

These data show just the opposite picture for Systemwide Student Fee revenues at each of the systems. In 1999-2000, revenues generated from student charges were 3.7% of revenue for community colleges, 16.2% at the State University, and 16.8% at the University of California; in 2004-05, they are estimated at 6% at the community colleges, 25.1% at the State University, and 27.7% at the University of California.

Displays 70 through 75 show appropriations of State-determined fund (SDF) sources for current operations in current (actual) dollars and 2004-05 "constant" dollars, as total appropriations per Full-Time Equivalent (FTE) student. These data are those used for the percentages shown in Display 69. For the University of California, total 2004-05 current-dollar State-determined funds per student have risen only 0.8% over 2003-04 levels to an average \$22,554. In 2004-05 constant dollars, total SDF per student in the University have risen only 2% in 37 years. For the State University, the one-year, current-dollar change in these funds per student is 5.4% and the 37-year, 2004-05 constant dollar increase is only 0.7%. For the community colleges, these changes show substantial variance – a 9.7% year-to-year increase in current dollars but a fraction of a percent constant dollar decrease for the 37-year period.

*Hastings College of
the Law and public
school support*

Display 76 shows the State General Fund and total funds (including student fee revenues) for Hastings College of the Law and the school's FTE student enrollment. Hastings College's State General Funds are anticipated to decrease by nearly \$3 million from prior year levels in 2004-05 and its total operating funds are expected to drop by \$2.7 million. Over the last ten years, Hastings College total funds have increased by 71%, with most of this increase due to growth in Hasting Funds – which consist mainly of student fee revenues. Over the past ten years, while Hastings College's total funds have increased 71%, its State General funds have actually decreased by 31%. Over this same ten-year period, the Hastings Funds have increased 261%.

*Per-capita spending
in California public
education*

Displays 77 through 79 show funding and funded enrollment information for California public elementary and secondary education (K-12). Total

funding for public K-12 education, including federal and other funds, is estimated to be \$59 billion in 2004-05, an increase of \$2.2 billion (3.8%) over the adjusted totals for last year. Combined State and local funding for public K-12 education is more than \$51 billion this year, \$1.7 billion (3.4%) higher than the revised 2003-04 totals.

Enrollment in the public school system is measured in units of “average daily attendance” (ADA), and the system’s funding is primarily based upon levels of ADA. These data are awaiting updates for the 2003-04 and 2004-05 fiscal year.

Displays 80 through 83 show “per-capita” appropriations of revenue sources for current operations for the public K-12 education and higher education systems. Per-capita calculations divide a given data series by a defined population grouping; in this measurement, funding levels are divided by the population of the State of California. These displays for K-12 education and the three public postsecondary education systems show changes in per-capita funding over the years and contrasts per-capita funding in each education system from only State funds (including Lottery revenues) with changes in combined per-capita funding that includes local funds for K-12 and student fee revenues for the postsecondary systems. The State University and University of California systems are projected to show year-to-year declines in per-capita State funding for 2004-05, while the community colleges show substantial increases when viewed in either State or combined funds.

Display 84 shows average per-capita “combined” fund spending for the State’s four public education systems from the four prior displays individually and as a “K – University” total for each of the past 40 years. Using these data, Display 84 calculates 2004-05 average per-capita appropriations for the California’s four public education systems in combination. Of the projected total for 2004-05, K-12 Education share is preliminarily estimated at 77.7%. For higher education, the community colleges are 9.3%, the State University is 5.7%, and the University of California is 7.4%. These shares of combined per-capita have changed only fractionally over the past dozen years and very little over the four decades of this measurement. The community college’s share of this total has gyrated the most over the years, going from a low of 5.7% in 1966-67 to a high of 11.9% in 1977-78 to an average of 8.7% for the past dozen years.

Display 85 shows per-capita appropriations of State General Funds in five “combined” State expenditure categories (as shown in Display 6) for years 1967-68 through the present. These data are also shown proportionally, as their respective “shares,” of the total of per-capita State General Fund expenditures. Here, K-12 Education has the largest dollar amount (\$930) and the largest share (43.7%). The second highest, is Health and Human Services (\$691; 32.5%), then Higher Education (\$254; 11.9%), Corrections (\$170; 8%), and General Government (\$82; 3.8%).

Year-to-year per-capita appropriations for 2004-05 are projected to increase in all five expenditure categories, except General Government. In total, the State is expected to spend \$2,127 dollars per resident in 2004-05 on these five areas of government. This represents a decline of \$34 (1.5%) from 2003-04 total for per-capita appropriations in the five expenditure categories.

Display 86 calculates actual California “Per-capita” personal income since 1965-66 using information and methodology from the United States Bureau of Labor Statistics. The information in this display differs from the “California Personal Income” shown in Display 66 in that per-capita personal income shown here is the average income for each person living in the State (please see “Definitions”), while the earlier display measures overall changes in income not divided by population. Using revised November 2003 U.S. Bureau of Labor Statistics information provided by the California Department of Finance, it is estimated that California per-capita personal income will increase by 3.9% for 2004-05. As is shown on page 5 of Appendix A, during these past 39 years, constant-dollar per-capita personal income in California has increased 51%, using the State CPI, while the State’s population has grown 95%.

*Education funding
and enrollments in
comparison to state
funding and population
growth*

Display 87 shows changes in the averages of State and combined fund appropriations, per person, for Californians served in the two education areas in terms of State finances and total finances. The population information used in these calculations is shown in Display 88. First, the combination of the State General Fund, Local Tax Revenues, and Non-governmental Cost Funds (see Display 8) are divided by the State’s population, similar to the calculation for the State’s “per-capita” spending. Then, for public higher education, the systems’ combined State, local, and student fee revenues are divided by headcount enrollment to provide caseload average appropriations. Finally, K-12 combined (State and local) funding is divided by K-12 headcount enrollment.

In terms of annual change for 2004-05, overall State funding per California resident is projected to increase less than 0.1%, while K-12 State and Local combined caseload funding increases 1.5%, and Higher Education funding per student decreases by nearly 1.4%. As is shown on the last page in Appendix A, these measurements continue to show that relative to increases in its service population, State funding for higher education has experienced by far the lowest overall growth in public-fund “dollars per caseload” of the three categories. Higher Education’s 39-year growth rate in per-student funding of 534% is just over half the 954% growth rate for per student combined State and Local funds for K-12 education and the 1,276% rate of growth in overall State funding per resident.

When the effects of inflation are removed from this measurement using the California Consumer Price Index, the distinctions become even clearer, as shown by the information for Display 87 on the last page in Appendix A. In constant 2004-05 dollars, average overall State spending

per resident has increased 9% over the most recent five years and 121% over the 39 years of this measurement. Combined, constant-dollar State and Local funding for K-12 education, per headcount student, has declined by 7% over the most recent five years and risen only 69% over the last 39 years. For higher education, constant-dollar per-headcount student funding over the most recent five years had declined by 2% and over the 39 years since 1965-66 has increased by only 2%.

Displays 88 and 89 show California's population and headcount enrollment in the State's public K-12 education system and in its three public higher education systems. Headcount enrollments in the California Community Colleges has increased the most of those shown here since 1965-66 (264%), followed by the California State University (180%), the University of California (153%), and K-12 headcount enrollment (56%). Over the most recent five years, the rates of growth for California's four systems of public education are in a fairly close range. The five-year rate of enrollment growth for community colleges is lowest at 8%, while K-12 Education (13%), University of California (15%) and State University (19%) are higher. In total, combined public higher education enrollments have grown 12% since 1999-2000 and 233% since 1965-66, a much higher rate than K-12 enrollment (56%), the State's overall population (95%).

Display 90 shows comparisons of overall State General Fund appropriations (SGFs) and State populations with changes in public higher education systems' State and Local funds and combined headcount enrollments. For the most recent year, overall State General Funds are projected to drop by 2.5% and higher education State plus Local funds are anticipated to increase 3.2%. Information for Display 90 in Appendix A shows that for the most recent 5 years, actual-dollar overall State General Fund appropriations (from Display 8) have increased 32%, while higher education State plus Local funding has increased 16%. However, as the length of time covered in this measurement increases, the gap between the two funding areas widens. Since 1984-85, total State General Fund appropriations have increased 233%, while higher education General plus Local funds have grown only 145%. From 1965-66 to the present, overall General Fund appropriations have increased 2,421%, while higher education General plus Local funds have increased 1,788%. In constant 2004-05 dollars, the differences follow a similar pattern, with the 39-year change being 382% for overall General Fund appropriations and 218% for higher education General plus Local funds.

*National comparative
higher education
appropriations and
expenditures*

Displays 91 through 98 present information comparing spending on higher education among the 50 states and the District of Columbia. Displays 91 through 94 use information compiled by the Bureau of the Census in its publication "Government Finances," and its succeeding data published only over the internet. The federal government defines some sources and uses of funds differently than does California and excludes some fund sources for higher education in its calculations that are gener-

ally included for California in state-level analyses. As a result some calculations shown here, such as per-capita expenditures in Displays 91 through 94, are not comparable with those in earlier displays in this report. They are included here because these data from the federal government are the best source of information available higher education spending that controls for state variances to produce consistent comparisons across the fifty states. It is important to note that these federal data include expenditures of federal funds for higher education, in addition to state and local fund sources.

Displays 91 and 92 show changes in per-capita state and local government higher education spending over a 36-year period, ending in fiscal year 2001-02; no state-by-state data are available for 2000-01. The average percent change in these expenditures from 1999-2000 to 2001-02 across the seven most populous states is 20%, while the average for the 50-states as a whole is only 7.3%. At 13.1% California's change is the second smallest of the seven states, with only Pennsylvania's 13% any lower. As shown on the fifth page of Appendix A, only Florida's 772% growth since 1966-67 is lower than California's 830% change over this time.

Display 93 expands this comparison to cover the 30 most populous states for the 16-year period 1987-2002. California was in the top ten of the states measured here for the earliest four of the ten years shown, then slipped to as low as nineteenth during the last year of the prior economic recession of 1994. Since 1995, California's ranking has hovered between sixteenth and eighteenth but for 2002, California's \$602 in per-capita expenditures higher education ranks eleventh among the 30 most populous states. California's cumulative sixteen years ranking is thirteenth among these 30 states, as it was last year, at \$386 per person. California still ranks second highest to Michigan among the ten most populous states in both the latest year's data and for the cumulative 14-year ranking.

Michigan (\$734), the nation's eighth most populous state, is third only to Iowa (\$796) and Oregon (\$742) in per-capita expenditures for higher education in 2000 among the 30 largest states. This continues to be the striking contrast to the general rule for this measurement that states with largest per-capita expenditures for education – and most other government program areas – tend to have relatively smaller populations. Michigan is the only one of the ten states with the largest population that also ranks in the top ten in these per-capita expenditures for higher education and this has been the case during each of the 16 years of this analysis. Iowa, the nation's thirtieth most populous state, has the highest level of per capital spending on higher education both for the most recent year and in the cumulative sixteen year ranking. Iowa has ranked first in this measurement for each of the 16 years shown in this display. For 2002, Wisconsin (\$692) ranks fourth behind Iowa, Oregon and Washington (\$676) is fifth. For the cumulative 16-year rankings, Wisconsin (\$470) is

third behind Iowa (\$530) and Michigan (\$485); Colorado (\$456) is fourth and Oregon (\$455) is fifth in this measurement.

Displays 94 and 95 show appropriations of State funds for higher education (as defined by The Grapevine, the higher education finance database operated by the Center for Higher Education Studies at Illinois State University). These displays show information for the nation's 35 most populous states for the last 22 years with annual (and other intervals) percent changes in these appropriations. For 2004-05, California continues, by far, to have the nation's largest overall higher education appropriations, as it has for the entirety of this data series. Even though California (\$9.1 billion) higher education spending is now just barely higher than it was in 2000-01, it is nearly double that of the next highest states of Texas (\$4.9 billion) and New York (\$4.1 billion).

Higher education appropriations declined between 2003-04 and 2004-05 in only seven of the 35 states shown here; between 2002-03 and 2003-04, the number of states declining was 17. The one-year change for the 50 States as a whole was \$2.3 billion (3.8%) on a base of \$63 billion. The 22-year percent increases for the five largest states are 186% for California, 140% for New York, 101% for Texas, 240% for Florida, and 163% for Illinois. The state of Georgia (256%) has achieved the largest percentage increase in funds between 1982-83 and 2004-05, followed by Florida, North Carolina (231%), Utah (226%), Arizona (219%), and New Jersey (218%). California's 186% 22-year increase in higher education appropriations, as defined here, ranks thirteenth.

Display 96 presents higher education current fund appropriations and annual percent changes for the past 25 years in those states that have appropriated more than \$1 billion to higher education operations – a group called the “Megastates” by Peirce (1972). For the purposes of this display, megastates are defined here as those states have appropriated at least \$1 billion to higher education in each of the most recent five fiscal years. This entire data series has been updated for prior years and shows different trends for some states than was evident in past publications.

Due to its sheer size, California's appropriations far eclipse those of the next closest state. Thus, this display also includes state funds for the California State University and the University of California (CSU/UC) as the equivalent of a state. Funding for these two systems together (\$5.2 billion), without the addition of the California Community Colleges and other higher education institutions and agencies, would constitute the second largest “State” in terms of state-funded higher education appropriations for every single year shown here.

The funding difference between the CSU/UC combination and the state with the next largest level higher education appropriations (Texas and New York have alternated here) is \$325 million for 2004-05. This difference has ranged from a high of more than \$1.2 billion, to a low of only

\$57 million. For 13 of the first 16 years of this data series, the State of New York ranked third in this measurement, ahead of Texas. In fact, for fiscal year 1983-84 both states ranked ahead of the CSU/UC combination in this survey. Beginning in 1997-98, Texas' higher education appropriations eclipsed New York's and for the most recent two years has substantially closed the gap with CSU/UC.

Display 96 also presents the 18 states by their annual percentage change in appropriations of State funds for higher education. In the most recent year-to-year comparison (2003-04 to 2004-05), higher education funding in California is anticipated to decline by 1.7% and the combination CSU/UC's appropriations are also anticipated to drop (3.8%). The megastate with the largest anticipated one-year rate of growth in higher education funding for 2002-03 is Georgia (11.3%) and the state with the largest percentage decline is Virginia (12.5%). Overall, ten of the 18 megastates and CSU/UC anticipate year-to-year decreases in higher education spending for the current year, as does the nation as a whole. Eight states expect higher education spending increases in 2004-05.

For the revised 25 years of data presented here, Georgia (393%) still tops the list of megastates in terms of cumulative percent change in higher education funding over time as it did in prior such measurements. The State of Washington ranks second (344%), followed by North Carolina (322%), Texas (267%), Alabama (237%), and Indiana (233%). California (231%) ranks seventh and the CSU/UC combination twelfth in this ranking. Not including the CSU/UC combination, the 17 true megastates higher education appropriations of \$45 billion represents more than 71% of the \$63 billion in general state funds anticipated to be spent on higher education in the nation as a whole in 2004-05.

Display 97 compares State General Fund appropriations for current operations of the California State University and the University of California over the past 15 years with those of their respective national public faculty salary comparison institutions.

State General Funds for the University of California dropped approximately 9% between 2002-03 and 2003-04, a slightly larger rate of decline than the average of its public comparison institutions. Only state funding for the University of Virginia was reduced by a greater amount (12.6%). Combined state funding for the University of California and its four public comparison institutions declined 6.7% for 2003-04, with the University's \$2.7 billion representing the majority of the \$3.5 billion total shown here. Since 2001-02, funding information for the State University of New York system has not been provided for its individual institutions, thus, no specific funding totals are reported for the UC comparator SUNY Buffalo.

The California State University's 7% drop in State General Funds for 2003-04 was close to the average 8.6% decrease in funds for its 15 public

comparison institutions. Though only estimates of funding were available for the University of Wisconsin, Milwaukee – and no campus specific data is available for SUNY, Albany – the overall trend in one-year funding among these institutions was generally one of decline. State spending at the University of Colorado, Denver dropped by the greatest (9.2%), while State spending at the University of Nevada, Reno rose the most (4.8%).

Finally, Display 98 shows a summary of State General Fund appropriations for ongoing higher education operations in the 50 states over the past 40 years, along with annual and two-year percent changes. Changes in the United States Consumer Price Index (U.S. CPI) and the Higher Education Price Index (HEPI) are also shown here for comparisons. These data show the one-year change in total national higher education spending is a \$2.3 billion increase (3.8%), the largest year-to-year dollar gain since 2000-01. Over the longer term, increases in this spending have far outpaced growth in the U.S. CPI and the HEPI. State General Fund appropriations for higher education nationally have grown faster than the U.S. CPI and the HEPI for each of the interims measured on Display 98 and have grown three-to-four times faster than these two inflation indices over the 37 years of change shown.

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